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PP RUEHRG
DE RUEHSO #0350/01 0901225
ZNR UUUUU ZZH
P 311225Z MAR 06
FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC PRIORITY 4787
INFO RUEHBR/AMEMBASSY BRASILIA 5936
RUEHBU/AMEMBASSY BUENOS AIRES 2126
RUEHAC/AMEMBASSY ASUNCION 2473
RUEHCV/AMEMBASSY CARACAS 0224
RUEHMN/AMEMBASSY MONTEVIDEO 1887
RUEHLP/AMEMBASSY LA PAZ 2678
RUEHSG/AMEMBASSY SANTIAGO 1634
RUEHRI/AMCONSUL RIO DE JANEIRO 6954
RUEHRG/AMCONSUL RECIFE 2807
RHEHNSC/NSC WASHDC
RHMFISS/CDR USSOUTHCOM MIAMI FL
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC 2342
RUEHC/DEPT OF LABOR WASHDC

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DOL FOR ILAB MMITTELHAUSER

E.O. 12958: N/A

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SUBJECT: SAO PAULO STATE BANK ACCUSED OF FAVORING ALCKMIN
SUPPORTERS

REF: (A) 05 BRASILIA 2150 AND PREVIOUS

(B) 05 SAO PAULO 323

SUMMARY

¶1. Media reports published March 26 accuse state-owned "Nossa Caixa" bank of directing advertising money to political allies of Governor (and opposition presidential candidate) Geraldo Alckmin, including several state legislators. Alckmin and senior bank officials have denied wrongdoing; however, on March 27 an advisor to Alckmin who was implicated resigned. In Brazil, where media enterprises depend on government advertising revenue and public relations firms live off government contracts, and where many politicians themselves own radio and TV stations and newspapers, official, political, and personal business too often gets mixed together in less than salutary ways. To date, the allegations against Nossa Caixa have not blossomed into a major scandal; however, allies of President Lula and the Workers' Party (Partido dos Trabalhadores - PT) may seize on it to try to tarnish Alckmin's image. End Summary.

THE STORY

¶1. On March 26, leading-circulation daily "Folha de Sao Paulo" published an expose alleging wrongdoing at "Nossa Caixa," a bank owned by the State of Sao Paulo. According to the article, the bank directed advertising funds to publications friendly to Governor Geraldo Alckmin and publicity contracts to public relations firms with close ties to his Brazilian Social Democracy Party (PSDB). An internal audit of the bank revealed that between September 2003 and July 2005, two public relations firms working without any contract

were paid 25 million reais (more than USD 12 million) in a variety of irregular ways that are reportedly under investigation by a public prosecutor. As a result of the audit, Nossa Caixa's Marketing Manager, Jaime de Castro Junior, was fired in December 2005 for malfeasance, indolence, and indiscipline. Deeming himself a scapegoat, Castro provided an account claiming that members of the Governor's staff, in particular special advisor for communications Roger Ferreira, pressured his department to direct business to certain media and publicity entities. The newspaper article quotes from e-mails purportedly exchanged among Ferreira, Castro, and executives of public relations firms under contract to Nossa Caixa, discussing placement of ads.

13. Among those alleged to have benefited from the scheme are state legislators Wagner Salustiano (PSDB), Afanasio Jazadji (PSDB), Vaz de Lima (PSDB), Geraldo "Bispo Ge" Tenuta (PFL - Liberal Front Party), and Edson Ferrarini (Brazilian Labor Party - PTB); television stations Rede Vida and Rede Gospel; and the magazine "Primeira Leitura," which was founded by Luiz Carlos Mendonca de Barros, who served as Minister of Communications during the Fernando Henrique Cardoso administration and has been identified as an economic advisor to Alckmin's nascent campaign.

THE DENIALS

14. Ferreira and senior Nossa Caixa officials denied any political influence in the bank's publicity and marketing operations, and many of the alleged beneficiaries likewise denied any favoritism. Primeira Leitura's website published a lengthy rebuttal. For his part, Deputy Jazadzi opined that it was obvious that the Alckmin administration was running the bank's publicity operations, noting

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that his own radio station had only received "sporadic" bank advertising, which had dried up after in March 2005 after the Governor's candidate, whom Jazadji had not voted for, lost his bid to be elected President of the Legislative Assembly (ref B).

15. Governor Alckmin, who was expected to resign March 31 as required by the Constitution in order to run for President, said there was no truth to the allegations and that the case would not be investigated. He indicated that Ferreira would continue to serve in state government. However, Ferreira resigned the following day, all the while insisting that he had done nothing "damaging to the rules of ethics or the public spirit."

16. So far, only "Folha" and a few television news reporters have pursued this story, and it is not clear whether it will gain momentum. The PSDB succeeded in blocking a request by the PT to create an investigative committee in the Legislative Assembly to look into the matter, and also defeated efforts to call Ferreira, Castro, Nossa Caixa President Carlos Eduardo Monteiro, and others to testify before the Budget and Finance Committee.

COMMENT

17. It is difficult at this point to determine how much fire there is beneath the smoke. There appears to have been some commingling of personal, political, and official business, but to what extent, if any, Ferreira or Nossa Caixa officials (beyond the hapless Castro) did anything illegal or even unethical is not clear. Advertising and publicity agencies, and the money they earn working in politics and government, appear to be a rich source of scandal and corruption, as illustrated by the important roles played by Marcos Valerio Fernandes de Souza and Duda Mendonca in the scandals involving the Lula government and the PT (see ref A). However, given Governor Alckmin's reputation for probity, it might be awkward for him to have to fall back on an "everybody does it" explanation. He may not need to; he may well be able to weather this mini-storm without damage. But the election is a long way off, and Lula and the PT may try to build this episode into a larger attack on Alckmin's ethics and administrative competence. End Comment.

18. This cable was coordinated/cleared with Embassy Brasilia.

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